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REVIEW OF WHOLESALE ELECTRIC MARKET DESIGN	**§ § §**	**BEFORE THE PUBLIC UTILITY COMMISSION OF TEXAS**

VALERO REFINING-TEXAS, L.P. AND DIAMOND SHAMROCK REFINING COMPANY, L.P. COMMENTS ON MARKET REDESIGN

Valero Refining-Texas, L.P. and Diamond Shamrock Refining Company, L.P., together "Valero," submits these comments supporting the Public Utility Commission of Texas's efforts, through redesign of the ERCOT market, to address and prevent the financial and physical devastation wrought by the February 2021 winter storms. Valero fully supports the goal of improving reliability of the ERCOT market which failed to maintain power to Texas consumers, and believes this Project is an opportunity to improve existing shortcomings regarding pricing, congestion, reliability, and predictable PUC and ERCOT decision-making. Valero, a major Texas electricity consumer, offers the following suggested principles that should guide market redesign.

I. VALERO IS A MAJOR CONSUMER OF ELECTRICITY PROVIDING CRITICAL RESOURCES TO TEXAS'S ECONOMY

Valero has seven refinery facilities in Texas, two of which are outside ERCOT. Within ERCOT are Valero facilities in Texas City, Houston, Corpus Christi, and Three Rivers. These refineries have nearly a million barrels per day of combined throughput capacity, are key suppliers of refined products in Texas including motor fuels such as gasoline and diesel products, and are an important percentage of overall refining capacity within ERCOT. And, consequently, Valero's refineries in ERCOT are very significant consumers of electricity. As a member of ERCOT, Valero has participated extensively in the ERCOT stakeholder process over the years. The ERCOT market's ability to provide reliable and competitively priced electricity is absolutely essential to Valero's competitiveness and success in delivering critical energy resources to Texas's economy.

Valero is deeply invested in ensuring that changes to the ERCOT market address and improve existing cost and reliability issues, and opposes any market design changes contrary to those goals.

II. VALERO IS CONCERNED ABOUT COSTS IN ERCOT

Valero opposes any market concepts that would introduce additional costs for electricity in ERCOT without a demonstrated corresponding increase in reliability. While some ERCOT customers can mitigate concentrated peak/scarcity energy costs by curtailing consumption during high-priced intervals, Valero, as critical infrastructure, generally cannot respond to price signals by curtailing and reducing demand. Accordingly, Valero is sensitive to prices in ERCOT. Furthermore, Valero agrees with Sen. Kolkhorst's comments during the Senate Committee on Business & Commerce hearing of September 28, that "even though we have a competitive market and everyone thinks we have the cheapest [electricity] in the country, we really don't." Valero's own comparative observations of markets around the country confirm this. While it is true that additional reliability initiatives may cost money, it is crucially important to ensure that those reliability initiatives produce measurable results. Texas is not the least expensive market in the country by any means, and so must be very careful before imposing new market rules that will increase costs further.

Specifically, Valero urges the PUC to reconsider and permanently reduce the current $9,000 cap. As TXOGA noted in its prior comments, the ORDC has gone from a nominal cap of $3,000 to $9,000 Value of Lost Load (VOLL) since the initiation of the current market, but there is no evidence that the change in the VOLL has brought additional reliability to the market. To the contrary, during Winter Storm Uri generation shortages persisted even when the PUC unilaterally, and outside the ERCOT Protocols, effectively pegged the ORDC at the cap by maintaining pricing at the $9,000/MWh VOLL level after firm load shed had ceased. ORDC and similar price adder

designs should incentivize energy generation that is dispatchable to the market when needed and should reward and pay for that energy in proportion to its supply to the need.

III. THE MARKET DESIGN MUST EQUALIZE INCENTIVES TO SUPPORT DISPATCHABLE GENERATION

Among the various causes of ERCOT's reliability failure during the February 2021 winter storm, one that has become very clear is that intermittent generation was not able to provide the power needed to Texas. It is well known that ERCOT has seen a dramatic increase in total intermittent generation in the market. While this is due in part to forces outside of ERCOT's market design such as federal tax credits, there is no doubt that the change in the market has caused the reliability problems that are inherent to non-dispatchable, intermittent, and inverter-based power. It is true that the PUC does not have the authority to address many of the forces favoring additional new intermittent resources being added to the Texas grid, but one thing that the PUC can change is to discontinue its current pricing mechanisms that incentivize additional intermittent resources without accounting for their inherent unreliability. As TIEC previously stated in their comments in this docket, the ERCOT ORDC is a pricing mechanism designed to incentivize additional generation resources to come online during supply shortage periods, i.e., when the reserve margin is thin. Intermittent generation, which may not modulate generation based on price incentives, receives the benefits of ERCOT's pricing adder without being able to reliably respond to shortage events or predictably increasing ERCOT's reserves. Any changes to, or replacement of, adders such as the ORDC should target resources that can reliably, predictably, and repeatably increase the overall system reserve margin on demand. This is necessary if the Commission wants to improve reliability in the most cost-effective manner. And, as the Commission focuses on dispatchability, it should not lose sight of the fact that dispatchable generation with immediate response time can provide system inertia with superior power quality.

IV. MARKET REDESIGN SHOULD ADDRESS TRANSMISSION CONGESTION

Valero strongly urges the Commission to consider how alleviating transmission congestion in ERCOT might improve reliability using existing resources. While congestion did not appear to be a a major factor during the February 2021 winter storm, Valero has observed many instances in which available and running generation is caught behind congested transmission lines and therefore unable to be economically delivered to markets experiencing shortages. This usually takes the form of temporarily dramatically higher pricing in some parts of ERCOT (where there is a shortage) than others (where there is a surplus). Valero believes that targeted investment in and improvement of the existing transmission grid could be a very cost-effective way to improve reliability, since it makes use of existing resources rather than requiring new resources to be brought to market. With the proviso that new investment must measurably and efficiently create new reliability benefits, Valero would support market redesign proposals that favor such strategic investments in new transmission capacity in the state.

V. MARKET REDESIGN SHOULD ENSURE THAT ERCOT AND THE COMMISSION ADDRESS SHORTAGES USING EXISTING RULES

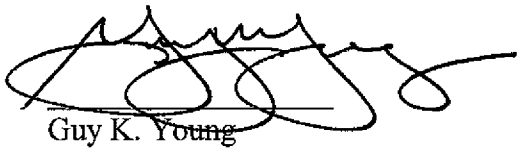
During the February 2021 winter storm, in an effort to spur additional generation to come online, the PUC unilaterally departed from existing ERCOT protocols to maintain pricing at the $9,000/MWh VOLL level for approximately 32 hours after firm load shed had ceased. The Independent Market Monitor later found this decision was in error, and cost the market billions of dollars. And yet the consumers who directly or indirectly had to pay those rates never received recourse for their overpayments. Like any competitive market, ERCOT's design depends critically on market rules that apply clearly and consistently. Under no circumstances should the PUC act unilaterally to change the rules mid-course, and Valero urges this concept to be recognized specifically in any market redesign proposal.

VI. MARKET REDESIGN CHANGES SHOULD BE MADE BY RULEMAKING WITH MARKET PARTICIPANT OPPORTUNITY TO COMMENT

Procedurally, Valero urges the Commission to implement any changes to the ERCOT market via a formal rulemaking proceeding. The changes contemplated by the Commission and urged by the numerous commenters in this Project have the potential to fundamentally reorder the ERCOT market, one of the largest and most unique organized electricity markets in the world. It is crucial that these changes be done right the first time, to avoid repeating last winter's mistakes and to avoid raising costs without improving reliability. While time is of the essence, accuracy is critical too. The best path by far is for the Commission to initiate any significant ERCOT redesign via proposed rulemaking, giving all stakeholders in the ERCOT market—consumers, marketers, and generators alike—the ability to comment in an established process. For the same reasons, Valero urges the Commission to permit replies and comments on the proposed market design submissions made in this docket. Valero does not think that the ERCOT NPRR process is the best forum for implementing substantial market redesign. The issues involved are simply too important to be decided without full input from all those affected.

Valero thanks the Commission for the opportunity to provide these comments.

Respectfully submitted,
Valero Refining-Texas, L.P.
Diamond Shamrock Refining Company, L.P.



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